



Department of Energy

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EXECUTIVE OFFICE

October 12, 2005

In reply refer to: R-3

To: Our Customers and Interested Parties

Re: Explanation for BPA's Decision to Take 30 Days to Develop a Convergence Proposal Before Calling the Grid West Decision Point 2 Question of Which Proposal to Implement

Summary of Decision

BPA has previously outlined our vision for moving to a "one-utility" approach to operating the region's transmission system. (See March 2005 Keeping Current: *Wanted: One Utility Transmission for the Pacific Northwest*.) Our view is that existing transmission can be operated more efficiently and reliably, and capacity planning and expansion can be accomplished at less cost, if the region's transmission assets are operated as if owned by one-utility. For some time, regional stakeholders have been exploring ways to accomplish these goals and have developed two proposals to do so.

The purpose of this letter is to explain why BPA has decided to take 30 days to complete development of a convergence proposal prior to deciding which approach to pursue.

The region has produced two proposals to change how the region's transmission system is managed, the Grid West proposal and a proposal by the Transmission Improvements Group (TIG). One option, the TIG approach, would work primarily through multilateral contracts and, to the extent possible, through existing organizations. The TIG proposal calls for the immediate implementation of improvements in five critical functions. A description of the TIG proposal can be found at: <http://www.tig-nw.kristiwallis.com/wp-content/FinalTIGReportAugust2005.pdf>.

The other proposal would work through Grid West, a non-profit corporation managed by a Board of Directors that is independent of market participants. The Directors would be elected by the region's stakeholders through a detailed procedure that assures no one stakeholder group can dominate the Board. The Grid West proposal would be further developed during the next two years but envisions an entity with centralized operation and planning authority with respect to participating transmission systems. A description of the Grid West proposal can be found at http://www.gridwest.com/Doc/IntegratedProposal_July222005.pdf.

Grid West has reached the second of four decision points in its development. At this interim point the question is whether a developmental board should be created for the purposes of negotiating an agreement between current transmission owners in the region and the Grid West

entity. It is important to note this is not a decision to actually sign transmission agreements or to implement a new entity to manage the region's transmission assets. That decision is two years away. Still, this is an important way station.

After taking public comment, we have determined that one of the three options we were considering, namely "Continue Separate Operations," does not warrant our support at this time. There is broad agreement that BPA should continue to participate in developing a new, pro-active vision to guide transmission operations into the future. After this vision has been sufficiently developed, BPA then can decide whether to further pursue it or instead elect to pursue a different course such as separate operations.

With the help of the public comment we have evaluated the Grid West and TIG alternatives on the basis of five criteria. We conclude that the Grid West alternative is better at addressing the need to create a decision-making entity that seeks regional least cost solutions, is independent of market participants, and includes broad regional stakeholder participation. The TIG alternative better ensures regionally accountable decision-making by relying on regional utilities and existing regulatory authorities which are directly accountable to consumers. We conclude that Grid West is more likely to create the clarity and certainty that is necessary to attract capital needed for transmission expansion.

We conclude that Grid West is likely to have higher benefits but also higher costs and higher risks than TIG. But, if there is adequate participation, both options are likely to have higher benefits than costs and therefore the cost-benefit analysis alone should not be the primary basis for selecting an alternative.

We conclude that an issue of great significance to many commenters, the role of FERC, seems less critical to us based on recent court rulings, how the 2005 Energy Policy Act has changed the playing field and the limited amount of additional FERC jurisdiction activity that would occur under the Grid West proposal. We come to this conclusion on the assumption that the current Grid West proposal is not expanded in scope without broad regional support. We also conclude that reliability benefits, which is one of the most significant issues being addressed, are more likely to occur in a Grid West environment.

We support TIG's proposal to begin implementing improvements in five critical functions as soon as practicable. However, we have significant concerns about the level of commitment of regional transmission owners to the substantial modifications TIG would require to realize its projected benefits, particularly in light of the tepid support for the non-binding Memorandum of Intent BPA asked TIG supporters to sign. We also have concerns about TIG's ability to respond to dynamic market conditions because so many of the functions will be defined in multiple contracts among multiple parties.

We believe Grid West can create a better process for making decisions by starting from a perspective of what is best for the region, not individual interests. But we have concerns about

Grid West's ability to expand its role beyond that currently envisioned or supported by Northwest stakeholders, the potential for board members to lack expertise in the unique characteristics of the Northwest electric power system and the potential for implementing complex new designs that entail software and hardware requirements that could negatively impact markets without adequate testing.

Over the past few weeks, a group of representatives from Grid West and TIG met to develop a "convergence" proposal to try to integrate the best of both proposals and address these concerns. The heart of a convergence or integration strategy relies on two key concepts. First, seat an initial non-FERC jurisdictional independent board of a not-for-profit corporation to (i) further develop the Grid West basic operations proposal, including negotiating an agreement between current transmission owners and the corporation as envisioned in the Grid West proposal, and (ii) implement a number of the near term TIG functions. Second, explore amendments of the Grid West Operational Bylaws to limit changes in scope over the objection of the region's stakeholders. BPA is also willing to explore a requirement that directors of the new independent entity must have experience with Northwest transmission operations or policy.

In addition, we believe that there should be a strong commitment to more testing of the design and systems that will be utilized to help ensure they will be low cost and not subject to manipulation and gaming. An important criteria for us at Decision Point 4 is whether there has been adequate testing. The region would decide whether to implement the Grid West basic operations at Decision Point 4, as currently planned. The convergence proposal is attached as Attachment A.

Since October 5, the convergence process is being advised by a joint advisory committee comprised of members of the Regional Representatives Group (RRG) and the TIG steering committee. We need the region to join us in seeing if an integration approach can work. It is time to put aside the view that the only decision is between the Grid West proposal and the TIG proposal. Both proposals have merit; both proposals have weaknesses. Convergence seeks to capture the best of both if reasonably possible. The goal of the convergence proposal is to take a modest amount of time to develop a better proposal by addressing what are viewed as weaknesses in both proposals.

Background

For the last decade, Northwest utilities have been considering ways to improve operation and management of the Northwest transmission system. For several years BPA has supported a "one-utility" vision for the region's transmission system. Under the "one-utility" vision, the Northwest transmission system would be operated and managed as though owned by one-utility.

The benefits of doing so include more efficient and equitable system-wide "one-utility" planning and expansion supported by a backstop authority; voluntary consolidation of control areas; a common, flow-based ATC methodology; better management of congestion on the grid; market

monitoring to provide effective grid-wide detection of market abuse; and “one-stop shopping” for transmission service to simplify access to the multiple transmission systems and reduce the administrative costs of doing business on the grid.

In early August, BPA asked the region for advice on which of three basic alternatives BPA should support:

- Transmission owners continue separate operations without the benefit of operating the region’s transmission system under a “one-utility” vision ,
- The TIG proposal, or
- The Grid West proposal.

Response to BPA’s Request for Comments

BPA received comments from more than fifty entities including state public utility commissions, public power customers, investor-owned utilities, independent power producers, large industrial consumers, environmental and public interest groups, renewable resource advocates, tribes, and other interested stakeholders.

In general, there is near universal support for the “one-utility” vision for the region’s transmission system and broad recognition that something must be done to position the region’s transmission system for the future. There is little support for the “continue separate operations” alternative, the status quo. Thus, the question is not *whether* the region will pursue a “one-utility” vision for Northwest transmission, but *how*.

The following section summarizes comments BPA received. A more detailed summary of comments is attached as Attachment B. All of the comments BPA received are posted at http://www.bpa.gov/corporate/business/restructuring/gridwest_comments.cfm.

Grid West Supporters’ Comments¹

Grid West supporters point to independent decision-making as the key to solving the region’s transmission problems. Because Grid West’s independent board is elected by regional stakeholders, Grid West will be more accountable, accessible, and responsive to regional stakeholders than the status quo or the TIG proposal. There are many mechanisms to assure accountability, including stakeholders’ ability to elect and remove board members, stakeholder participation in Grid West budget preparation, and the ability of stakeholders to vote on significant changes in scope. Grid West’s independence will allow all parties to submit market sensitive load and generation data with confidence that the information will not be used to their competitive disadvantage.

¹ The following discussion summarizes comments by Grid West supporters. By including a comment, BPA does not necessarily agree or disagree with that comment. BPA’s views are expressed elsewhere in this letter.

Grid West supporters argue that Grid West is superior to the TIG alternative because it comes closer to meeting the “one-utility” vision because it offers a single, integrated and comprehensive organization designed to manage the region’s electric grid for the benefit of all, not just a limited few. Design decisions will be made on the basis of what works technically and what will bring value to the region as a whole. It will provide greater benefits, and it is more viable. The Grid West proposal is a compromise proposal developed over many months with broad regional stakeholder participation.

By contrast, Grid West supporters argue that the TIG proposal leaves the same decision process in place that has contributed to the inability of the region to effectively address transmission problems under the status quo. The TIG “incremental” changes mostly address only symptoms of the region’s problems. TIG’s design subordinates functionality in an effort to avoid FERC jurisdiction rather than seek what is in the best interest of the regional grid and its stakeholders. The TIG’s desire to avoid FERC jurisdiction limits the potential of TIG to deliver benefits to the region and constrains TIG’s ability to adjust to changing conditions. The TIG proposal is not the product of a broad regional stakeholder process, and lacks a robust stakeholder process going forward.

Grid West supporters believe the Grid West proposal is more likely to be implemented than TIG because it provides more benefits. It is a carefully considered, thoughtful proposal for addressing the region’s transmission issues that does not make radical changes quickly. It has broad support among regional stakeholders, including some support within public power where opposition to Grid West has been strongest.

PacifiCorp and Idaho Power Company, two key regional transmission owners whose participation is important to the success of any one-utility proposal, will not join TIG. As operators of large transmission systems, they understand well the problems of managing an integrated transmission system. The lack of their participation in TIG not only reduces the benefits of the TIG proposal, but the absence of their technical support makes it unlikely TIG will succeed. Grid West proponents argue that there is little or no hope that the TIG alternative could be implemented effectively given the difficulty of negotiating five different complex coordination agreements among transmission owners that historically have not been able to agree.

Grid West supporters note that BPA and other Northwest utilities will have to make significant improvements in their operating systems to comply with federal reliability standards as a result of the Energy Policy Act of 2005. Many of these systems are likely to be the same operating systems that Grid West will need to operate and manage the transmission system for the Northwest. It only makes sense to develop these systems for the entire Grid West footprint and take advantage of economies of scale through a single operating system, rather than have each utility develop its own separate systems.

Grid West supporters believe TIG is likely to have a difficult time getting FERC to approve the TIG agreements. Even if FERC approves, FERC may take a more active role in overseeing Northwest transmission because of the lack of independent decision-making. The ultimate irony of the TIG proposal may be that, in an effort to avoid FERC jurisdiction, it may instead increase FERC oversight.

TIG Supporters' Comments²

TIG supporters argue that the TIG proposal makes modest incremental changes to implement five critical functions identified by BPA that can be implemented quickly (planning and expansion, reliability, security, a common flow-based ATC methodology,³ market monitoring, and a common OASIS for “one-stop” shopping⁴). The history of the Northwest’s willingness to work together to develop cooperative agreements to manage the Northwest power system lends itself to success in doing so for transmission. By proceeding under existing regulatory relationships TIG provides a degree of certainty that is essential for near-term transmission system expansion. There is a need to foster stable transmission access, reliability, and prices at a critical time when BPA is trying to shift responsibility to develop new resources to serve Northwest load growth to its customers.

More importantly, the TIG proponents argue that TIG alternative avoids the costs and risks associated with creating a new entity, one that is FERC jurisdictional and not responsive to Northwest interests because Grid West would be accountable to FERC, not regional stakeholders. By creating a new FERC-jurisdictional entity similar to other RTOs, legal protections under the current system are reduced, thereby exposing the region to unforeseen risks. The Grid West proposal abandons the “public interest” standard that has guided Northwest transmission policy development for many years. Grid West has no obligation to consider the needs of the region in its decisions. They take little or no comfort in FERC’s recent ruling because the ruling is not binding on future Commissions.

TIG supporters believe that, under the 2005 Energy Policy Act, BPA will be subject to FERC-ordered refunds by participating in Grid West organized markets for ancillary services, imbalance energy and redispatch services, thereby losing its recently won Ninth Circuit protection from FERC-ordered refunds.

² The following discussion summarizes comments by TIG supporters. By including a comment, BPA does not necessarily agree or disagree with that particular comment. BPA’s views are expressed elsewhere in this letter.

³ One of the problems with current transmission practices is that transmission rights have been historically defined in terms of “paths,” which assumes wrongly that electric power follows the path laid out for it in contracts for the sale of power. Actually, electricity flows over an electrical grid according to the laws of physics that often have little correlation to the commercial terms of a contract. One of the goals of a “one utility” vision is to better conform commercial practices to the laws of physics. Thus, available transfer capability (ATC) should be determined by considering how much additional power flow can be injected into the system at a particular point to serve load at some other point without causing the lines to overload—after taking into account the amount of transfer capability required to serve existing contracts. This is called a “flow-based ATC methodology.” BPA has begun using this method to determine ATC on its system.

⁴ “OASIS” (Open Access Same time Information System) is an internet site utilities maintain to post information about the availability of transmission-related services. “One stop shopping” is a “one utility” vision of being able to go to a single internet site to obtain transmission-related services under a single set of common terms and conditions across the entire transmission network. Today, if you want to move power across the system, you have to arrange the transaction with each control area you use, each of which has its own rules, a commercially inconvenient practice sometimes called “transactional pancaking.”

Further, they argue that the proposed Grid West changes to the operational structure of the transmission system will detract from efforts to operate reliably and further delay making improvements to infrastructure. Grid West's reliance on competition, market mechanisms and selling to the highest bidder are contrary to the interests of load-serving, cost minimizing preference customers and their end-use customers. BPA's transmission customers will no longer be able to purchase new transmission rights from BPA; they will have to do business with Grid West.

TIG supporters believe that seeking transmission to move economy or other short-term energy to their loads will have to compete for transmission rights on a price-basis with marketers and generators. To the extent that competitors are purchasing transmission rights to move power to higher-priced regions (such as California or the desert Southwest) these competitors will be able to bid more for the transmission. In many cases utilities will incur substantially higher transmission prices than are paid now for short-term transmission—or, they may be priced out of the market altogether. It is not in the public interest for load-serving utilities to be put in a position of having to bid for the transmission they need to serve their native loads.

TIG proponents note that Grid West has not developed a method of pricing long-term transmission without causing significant cost shifts. Prior efforts to establish a new regional transmission entity foundered on pricing of long-term transmission, and eliminating rate pancakes. The Grid West proposal has not adequately addressed these difficult and perhaps deal-breaking issues.

TIG supporters contend that the Grid West proposal is risky, costly, and less beneficial than the studies suggest. Cost escalation is likely to be higher than expected. The proposal is new and untested. It creates new markets that could be manipulated by companies like Enron with no interest in serving consumers. The Grid West proposal could result in a loss of revenue to transmission owners and a cost shift among customer class from reducing pancaked rates.⁵ The proposal implements too much change too quickly. BPA has ignored various Grid West risks identified in various studies.

Consolidated control areas theoretically provide a better view of overall system conditions, but TIG supporters caution that doesn't necessarily result in better reliability as the 2003 Eastern Outage shows. The Northwest should not ascribe benefits from increased reliability to either proposal that will likely occur under the Energy Policy Act in any case. BPA's contract lock proposal is not adequate, a concern that is avoided if BPA rejects Grid West.

⁵ "Pancaked rates" refers to current practice where power is moved across the system is charged a transmission rate every time the transaction crosses a control area. This is analogous to a toll road, where a new toll is added every time ownership changes. This practice penalizes transactions that must use several control areas. A goal of the "one utility" vision is to reduce rate pancaking such that new users of the system pay just one rate to use the system. Reforming this inefficient pricing practice could create a revenue loss to transmission owners.

Comments by Others Who Supported “Convergence”⁶

Others doubt whether, taken alone, either TIG or Grid West would be practically, or politically, successful. They urge BPA to focus on flexibility and not make an irrevocable up-or-down decision between the two proposals. BPA should lead the region by committing to near-term improvements in region wide transmission planning and expansion, reliability management, a common platform for transmission access and scheduling⁷ (e.g., a common OASIS), and market monitoring.

One commenter noted, the geographic scope of Grid West or TIG must be region-wide. If Idaho Power, Pac-East, Avista and Northwestern are not all included in whatever organization is finally created, the end result would be unacceptable, leaving the region with nothing more than the status quo.

Discussion of Five Critical Factors Identified by Stakeholder Comments

While many issues were addressed, stakeholders identified five critical factors that seemed to drive positions. These were: (1) governance, independent decision-making, and regional accountability; (2) reliability through consolidation of control areas; (3) costs and benefits; (4) likelihood of successful implementation; and (5) FERC jurisdiction. The following summarizes BPA’s views on each of the two alternatives in terms of these factors. In addition, BPA addresses three additional issues—liability considerations, the requirements that must be met under the Energy Policy Act of 2005 before BPA could transfer authority to Grid West, and FERC refund authority under the Energy Policy Act.

Some parties characterize the decision at hand as a binary decision that requires choosing between two clearly distinct and contrasting positions. BPA sees it differently. These issues are complex. Solutions occur along a continuum that requires balancing tradeoffs, risks, and benefits. Many of these issues are better described not as on/off switches (e.g. does one model create FERC jurisdiction while another does not) but rather as dimmer switches (e.g. how much additional FERC jurisdiction is created with one model versus another). It is also important to note that both the TIG and Grid West proposals have made significant movement along this continuum such that the gap between them has lessened.

⁶ The following discussion summarizes comments by supporters of a convergence alternative. By including a comment, BPA does not necessarily agree or disagree with that particular comment. BPA’s views are expressed elsewhere in this letter.

⁷ “Scheduling” is the practice under which transmission users notify transmission owners in advance which generators a transmission user will use to serve a given load or commercial contract obligation. Transmission owners use these schedules to operate the transmission system reliably to honor these requests within the capability of the system. Schedules must be “balanced,” meaning each user of the transmission system must schedule sufficient generation to meet anticipated load (or their contract obligation in the case of a commercial transaction).

Governance: Independent Decision-Making and Regional Accountability

The governance tradeoff is between the potentially conflicting goals of independence and regional accountability. A significant problem for the region currently is that parties owning transmission assets come to decision-making tables representing their individual interests, making it more difficult to achieve regionally least-cost solutions. Creating a board that is composed of individuals not tied to any particular regional interest addresses this issue. But a problem with an independent board is that it increases the distance between decision-maker and consumer. This distance can reduce accountability for issues such as cost control and concerns about rate impacts.

Both Grid West and TIG have sought to find a balance between these two objectives although they put the balance point in different places. Grid West leans further toward independence, but also seeks to address regional accountability by subjecting the election and removal of board members to the vote of representatives from multiple stakeholder groups. Grid West has a clearer role for Independent Power Producers, including the renewable resource community, than TIG. TIG places a greater focus on regional accountability by creating committees composed primarily of regional transmission owners and users, although in at least some cases these committees can include parties that are independent from transmission owners or users.

BPA believes there are growing problems associated with multiple transmission owners seeking to optimize for their own self interest, rather than seeking least regional cost, and we believe the Grid West governance structure offers significant improvements in this area. Grid West's proposed decision-making structure is further along in its development, and ultimately is more likely to make and sustain tough decisions. This latter issue we believe is particularly important because transmission systems require significant capital investment. Institutional structures that create greater clarity and certainty are better able to attract capital.

Concerns have been raised that Grid West board members will be primarily interested in carrying out a FERC agenda. We don't believe this to be the case. Certainly any entity that is regulated will be concerned about the views of its regulator. But Grid West board members will have a fiduciary duty to the corporation and to its members, not FERC. And Grid West board members are elected and can be removed by the regional stakeholder committee. This conclusion has been strengthened by giving stakeholders authority to review and influence key board decisions.

Substantial modifications were made at Decision Point 1 with respect to the process by which major changes in scope would be made. Nevertheless, BPA believes some additional improvements could be made to increase regional accountability without significantly compromising independence. This concern has been heightened by what we have witnessed in other parts of the country where RTO boards have proceeded to implement policies despite substantial majority opposition by stakeholders. BPA also believes that the unique characteristics of the Northwest power and transmission system lend themselves to a requirement that the board members have experience with Northwest electricity issues and operations.

Concerns were also raised that the Grid West board will not be guided by a public interest standard. BPA believes this issue has been addressed because the Purposes section of the current Operational Bylaws includes the directives “to provide sustainable customer benefits and to take into account environmental stewardship, regional interests, and cost-effectiveness.” These were added in June, 2004 to address the long-standing interest of the tribes to include a public interest standard.

BPA believes that TIG proponents are correct in their belief that regional accountability for decisions would be less jeopardized in their model because of the reduced distance between decision-makers and end-use consumers. On the other hand, the TIG decision-making process relies on commitments of regional transmission owners to implement TIG decisions even when it is not in their self-interest. The key to this commitment is the strength of the contractual relationships the parties enter into. BPA is very concerned about the level of commitment to implementing TIG in a manner which captures regional benefits, particularly in light of the less than full support for signing the TIG Memorandum of Intent.

The Grid West model appears to us to be more able to respond to dynamic market changes than TIG. Changes to Grid West policy would need to go through an open public process but the board could make changes it determines to be in the region’s best interests. By contrast, substantial changes to the TIG proposal would require unanimous approval among TIG participants to amend multi-lateral contracts.

BPA’s conclusion is that the governance approach represented by the Grid West board is most likely to be successful in achieving the region’s key objectives for transmission operations. We do, however, believe some modifications need to be made to the Grid West governance structure consistent with our concerns listed above.

Reliability Through Consolidation of Control Areas

BPA believes improving reliability is one of the most significant reasons for moving forward with change. As loads grow in the Northwest driving new generation, particularly non-Federal generation and new market entrants, the complexity of operating the system is rapidly escalating. Historically, BPA has been a fly wheel solving regional reliability problems. But that is becoming increasingly difficult as more generation is added with multiple points of delivery over a system characterized by long distances between generation and load. The most fundamental issue in improving reliability is consolidating control areas.

The tradeoff on consolidation of control areas⁸ is between independent operation of each transmission owner’s system as a separate system within the transmission network and integrated operation of network transmission under a single authority. When it comes to reliability, we

⁸ A “Control Area” is a collection of generation and transmission facilities that are operated as an electrically neutral system such that no power flows from one control area to another accidentally under normal operations. A control area operator’s job is to keep the lights on as power is delivered to consumer by continuously “balancing” generation to load by increasing or decreasing generation as load changes during the hour. Various services, referred to as “ancillary services,” are used to do this. Thus, it is the control area operator’s job to maintain reliability.

believe stronger centralized control is better. This is because a single operator of network transmission has broader visibility and can see problems as they begin to develop on the system, and take pre-emptive action to prevent outages using a broader array of tools available to it from among the consolidating utilities.

BPA believes it is essential to improve reliability through consolidation of control areas. The consequences of a reliability failure, although relatively unlikely, can be enormous. They include damages to consumers caused during an outage, which is the basis for most economic studies of the costs of an outage. But they also include significant aftereffects. After the 1996 outage, BPA was forced to derate the Intertie for an extended period of time until improvements could be made in the system. Derating transfer capability is a significant commercial cost of an outage that also negatively impacts consumers. The potential for aftereffects of a significant reliability problem is not included in the cost-benefit analysis of either Grid West or TIG.

Grid West provides for voluntary consolidation of control areas with Grid West as the Control Area Operator. While each consolidating utility would be responsible for providing resources sufficient to meet its share of Interconnected Operating Services (IOS), Grid West would operate voluntary real time ancillary services, imbalance energy,⁹ and redispatch markets¹⁰ to facilitate efficient operation and dispatch of the consolidated control area among the consolidating transmission owners.

Some have expressed concern that these markets can easily be manipulated. We believe this is not likely because the Grid West markets are voluntary in nature. But if it were to happen, the financial exposure would be modest because these markets are limited in size and scope, and participation is voluntary. They represent only a small fraction of a retail consumer's bill. Only utilities that voluntarily choose to consolidate may buy from the market. Each consolidating utility must submit a balanced schedule, including sufficient Integrated Operating Services (IOS)¹¹ to serve their own loads and meet their ancillary service requirements. This makes it unlikely there will be significant supply/demand discrepancies that lead to highly volatile prices. Utilities may, but are not required to, offer surplus energy or IOS into these markets.

Day-ahead energy and capacity markets to serve load have the potential to substantially impact retail consumer's bills. These are the kinds of markets that created opportunities in California for Enron and others to manipulate. They are not part of the Grid West proposal. Rather, the Grid West proposal relies on existing bilateral markets to obtain sufficient power to serve load. This means contracts to purchase power needed to serve load will continue to be negotiated between buyer and seller in advance of delivery, rather than purchased through an auction run by

⁹ "Imbalance Energy" is electric power that is made available to a control area operator to balance generation and load as load fluctuates during the hour of delivery.

¹⁰ "Redispatch Service" is the practice of adjusting the output of generators by increasing output in one location while simultaneously decreasing output at another location to bring electrical flows on the network within applicable limits. Without the ability to redispatch generation, control area operators would have to "curtail schedules leading to an involuntary redispatch, or in rare instances an interruption of service to consumers.

¹¹ "IOS" refers to raw generation capability that is offered by generation owners to a control area operator to create ancillary services to allow the operator to match generation to load during delivery. Thus, IOS (generation) plus control by a control area operator creates an ancillary service such as reserves to cover a contingency, and related services.

Grid West. Grid West cannot expand its scope to include mandatory energy markets without agreement of the participants, although we believe stakeholders authority to limit changes in this area without their approval needs to be strengthened in the convergence process.

TIG also provides an option for utilities to voluntarily consolidate some control area responsibilities but in a slightly different fashion than Grid West. As with the Grid West proposal, utilities would keep their control area metering and electrical boundaries but they would turn over the reliability and balancing authority responsibilities to an independent contractor,” (referred to as “RABA”) similar to the arrangement with the Pacific Northwest Security Coordinator.

The contractor would ensure that each of the consolidating utilities meets their ancillary services requirements and operate the consolidated control area in a reliable manner. The contractor would have the authority to direct the utilities to modify operations if needed to meet reliability needs but would not have direct operational control of consolidating utilities’ systems. The proposal would allow all control area utilities to pool regulating reserves, probably through a Northwest Power Pool agreement similar to the existing operating reserve sharing agreement.

We believe a RABA could provide significant reliability benefits if it is implemented broadly within the region. We temper this belief with a strong concern that a TIG reliability proposal should not result in separation of real-time scheduling from operations, which we believe would be a step backward for reliability. We assume, though, that the TIG proposal can be modified to address this concern. Our bigger concern is that there is limited interest in RABA among TIG members, based on the response to the Memorandum of Interest. In addition, the utilities that have expressed a willingness to fund further TIG efforts does not appear to us to create the minimum set necessary to be able to manage reliability issues well.

Further, the lack of interest by PacifiCorp, Idaho Power Company, and others who control much of the region’s transmission system, causes us to question whether the TIG approach will result in any significant control area consolidation and associated reliability improvements.

Given the level of commitment by existing control areas, Grid West is clearly the superior model at this time for capturing potential reliability benefits.

Costs and Benefits

Grid West and TIG, while addressing similar issues, present quite different cost-benefit analyses. Our belief is that Grid West is likely to produce greater benefits than the TIG proposal but does so at greater cost. Because of the higher costs, many which are incurred up front while many benefits accrue later, Grid West should be viewed as more risky because the costs will be real but some benefits may not materialize, or may materialize more slowly over time. On the other hand, the TIG proposal costs less, begins more modestly, and therefore entails less risks than the Grid West proposal, but yields fewer benefits.

The tradeoff in any cost benefit analysis is between the probability that benefits materialize as expected and the risk that costs exceed estimates. There is no perfect methodology to assess costs and benefits of complex transmission decisions with certainty. One can always find fault with any cost benefit analysis, as is the case with both the Grid West and TIG costs and benefits estimates. That dynamic exists among the supporters of both proposals.

The Grid West participants' strategy in assessing the costs and benefits of Grid West has been to support a rigorous cost-benefit analysis in an open process where all regional stakeholders were invited to define the parameters for the study of Grid West costs and benefits, to review and critique the results, and, in the case of the benefits study, to participate in preparing the results.

The Structure Group, a consulting firm retained by Grid West to evaluate Grid West costs, estimated the start up costs of the Grid West proposal to be about \$133 million. It estimated Grid West annual operating costs to be about \$86 million, including the costs of financing start up. BPA estimates the total annual operating costs of Grid West, including utilities' internal costs, would be about \$101 million.

In arriving at these estimates, the Structure Group prepared a detailed estimate of Grid West costs based on a "bottoms up" approach. As a check, these cost estimates were benchmarked against the costs of several RTOs and ISOs around the country. We have been particularly concerned about the risk of rapidly escalating costs other RTO/ISOs have experienced relative to their start-up projections. In many instances those cost escalations were driven by RTO functions that Grid West will not be undertaking (e.g., day-ahead energy markets and markets for financial transmission rights). In other instances where the functions are similar, the Structure Group based its cost estimate in part on what others have experienced.

Based on its analysis of the benefit study prepared by the RRG-chartered stakeholder group, BPA believes a conservative estimate of the quantifiable benefits of Grid West would be between \$106 million and \$181 million per year. We also expect significant benefits that we have not quantified. While some parties have argued for a much higher number, we believe such optimistic upside estimates, while possible, are speculative. BPA believes a more conservative estimate is warranted.

The consulting firm Nexant has estimated TIG costs to be about \$51 million a year, including financing start up capital costs of about \$82 million. Nexant based its estimate on an examination of the Structure Group results and a functional comparison of TIG and Grid West. BPA believes that utility level costs should be factored into TIG costs, but time did not allow this to be done.

Global Energy Decisions estimated the benefits of the TIG proposal at between \$35 and \$111 million per year. BPA has some concerns with parts of the Global Energy Decisions study. Despite these concerns, we believe TIG benefits are likely to be greater than its costs if there

were sufficient participation by transmission owners in a TIG solution. This issue is discussed further in the section regarding likelihood of implementation.

The net benefits of both the TIG and Grid West alternatives would be higher if more entities participate than those assumed in the benefit assessments. This is because there are substantial costs associated with the start-up of either model which do not change substantially based on number of participants while the benefits are directly tied to the number of participating entities. The benefits of both proposals are augmented by significant unquantified benefits associated with improved transmission planning, construction deferral, coordinated maintenance, and unmeasured reliability benefits. The TIG proposal has not evolved as much as the Grid West proposal, making the cost-benefit analysis less robust than the Grid West analysis.

There is always a risk inherent in doing something new. TIG is clearly oriented to making modest improvements incrementally. We agree with the basic philosophy of making more modest changes initially and then deciding if further changes are needed.

The Grid West proposal also envisions making incremental improvements by phasing them in over time although it moves forward with more expanded functions more quickly than would likely occur under the TIG model. Consequently, the Grid West approach engenders more expansion risk than TIG.

While the Grid West proposal is further developed than the TIG proposal, a number of hard questions buried in details have yet to be addressed in the Grid West proposal. Once these issues are addressed we will need rigorous testing of systems, including stress tests, to assure the systems work as intended before being implemented, if the region votes to implement Grid West basic operations functions at Decision Point 4. In fact, we believe there needs to be a stronger commitment to testing prior to Decision Point 4 than is represented in the current Grid West documents.

There is a substantial risk of costs escalating due to redesign under both alternatives. It is extremely important under both options to try to get it right the first time. Rigorous testing of systems before implementation is important.

While the Grid West proposal has higher overall costs, Grid West's Grid Management Charge would likely be less because of greater participation that allows costs to be spread over a larger load base.

In sum, while BPA believes there is uncertainty in the results of these analyses, BPA is confident that both the Grid West and TIG proposals hold the potential to produce net benefits for the region. The Grid West proposal clearly produces more benefits, although it costs more.

In the end we believe the cost benefit analysis supports the adoption of either TIG or Grid West relative to the status quo but is not the major deciding factor between the two options.

Likelihood of Implementation Success

We believe that with a firm commitment of regional stakeholders, either of these models can be implemented successfully. We say this despite the fact that there are substantial complex issues that remain to be resolved for either option which should be addressed now to improve the probability of implementation success. The selection of either of these options is likely to result in substantial opposition from regional stakeholders that endangers its successful implementation. The question is which of these options is more likely to generate the critical mass necessary to make implementation more feasible.

Proponents of each alternative believe their proposal is more likely to be successful. Stakeholders presented a number of forceful and thoughtful insights on likelihood of success in response to BPA's question on this topic.

A fundamental problem for TIG supporters is that Idaho Power and PacifiCorp have stated plainly that they will not participate in the development of TIG. This takes a substantial portion of regional transmission assets out of the picture and has substantial negative implications for the cost-benefit analysis for TIG. Some believe that if BPA goes with TIG, Idaho Power and PacifiCorp will ultimately change their position and join. But proceeding on the basis of that assumption would require taking substantial risk.

From a purely functional standpoint, the TIG alternative is a viable alternative. However, its success hinges on a high level of cooperation among diverse interests through multi-party cooperation agreements that have been difficult to negotiate in the past. The proponents of TIG argue that the TIG approach will yield benefits more quickly. This is an attractive argument. A problem is that the region's record in reaching consensus quickly through multi-party contracts is not good. We have been discussing changes to the region's transmission system for ten years. Further, the degree of support for the TIG proposal among TIG participants is lukewarm. At least one key TIG member is not willing to fund further development. Many are not willing to commit to join RABA, the heart of improving reliability under the TIG proposal.

The combination of these factors makes it unlikely that the key benefits, particularly with respect to reliability, will be realized. Had the TIG approach received strong support from among TIG members, we would have a higher degree of confidence that the TIG alternative would be implemented. The support for the TIG alternative, among TIG proponents is mixed at best. Grid West proponents, on the other hand, have stated that they will provide the funding necessary to move forward with the next steps in Grid West development.

At the same time it is impossible to ignore the arguments from TIG proponents that benefits can be achieved by implementing change sooner rather than later, particularly with respect to those functions that can be implemented without significant investment. These include creating a marketing monitoring unit, a regional planning and expansion process, a common OASIS

(including a bulletin board market), starting development of a common flow-based ATC methodology, and a strategy to manage control area error. Under the existing Grid West proposal many of these improvements would not be captured until after Grid West is up and running at least two years from now. Seeking a means to capture these improvements sooner rather than later seems worthwhile.

Grid West supporters should be concerned about the depth and breadth of opposition expressed to Grid West by some regional stakeholders. It raises the question whether there would be sufficient member support at Decision Point 4 to allow the proposal as it exists to move forward. These opponents have made it clear they will seek to thwart the implementation of Grid West during the remaining period between Decision Point 2 and Decision Point 4 and beyond. This can create delay and the potential for substantial cost consequences.

In addition, both the TIG and Grid West proposals rely on developing new and untested markets, hardware and software. These are substantial undertakings, the success of which is critical to assuring the expected benefits are realized. It also seems critical that proceeding with Grid West or TIG would require establishing clear milestones to assure that it is accomplishing its anticipated functions within the projected budgets.

In BPA's view, "integration" of the two alternatives increases the likelihood of obtaining support to move a pro-active approach forward. Integration would allow the region to capture the benefits earlier rather than later. It would also allow the Grid West approach to continue to be developed and fairly considered at Decision Point 4. Integration would test the basic thesis of TIG proponents that many of the benefits of Grid West can be captured without having to create a FERC jurisdictional entity. Moreover, it also has the potential added benefit of more regional stakeholders working together under a common process to achieve a common end. Hopefully, it will move us past the bickering and delay inherent in a highly divided region seeking two different strategies to accomplish the same ends.

In order for integration to work, the proponents of each alternative will have to set aside their inherent philosophical differences in how the benefits of the "one-utility" vision should be captured and work to capture them under an independent, Grid West-type governance structure. But changes would need to be made to the existing Grid West governance structure to limit the potential for the board to act contrary to the expressed interests of regional stakeholders and to create a requirement for extensive Northwest electricity experience on the board.

FERC Jurisdiction

The tradeoff with respect to FERC jurisdiction is between the desire to implement functions that are regulated by FERC (such as marketing transmission capacity not needed to serve existing contracts, and operating highly beneficial ancillary services, imbalance energy, and real time redispatch service markets) and the risk that FERC will force a FERC jurisdictional entity to implement policy that is not in the region's best interests.

While the benefits and risks of FERC jurisdiction have received considerable discussion, it now appears to BPA to be less of an issue than previously thought for several reasons. First, FERC issued a declaratory order in July indicating that it would not require Order 2000 to be implemented by Grid West. While this determination does not bind a future Commission, we believe it unlikely that a future Commission would ignore this important guidance that has been formally approved by the Commission.

The order also specified that FERC could not modify or abrogate BPA's existing transmission contracts and could not limit BPA's ability to withdraw from Grid West. In addition, FERC held that it did not gain any jurisdiction over non-jurisdictional utilities merely by their decision to participate in Grid West as participating transmission owners, members or as purchasers of services. A recent court decision reached the same conclusion that FERC's authority over entities is constrained by limitations in the Federal Power Act and cannot be obtained merely through the actions of such entities.

Second, the recently enacted Energy Policy Act of 2005 has substantially altered the playing field. The Energy Policy Act has created clear FERC jurisdictional authority over all the nation's utilities with respect to reliability. This applies to all utilities whether or not the TIG, Grid West or the status quo alternative is adopted. In addition, the Energy Policy Act also extended FERC jurisdiction over BPA (and other previously non-jurisdictional utilities') transmission services to assure services are provided to market participants comparable to the services BPA provides to its merchant function.

As a result of these provisions there is no longer a question of whether FERC jurisdiction will apply to BPA transmission. Rather, the question is now *how* FERC will apply this authority.

Third, the degree of market creation, and therefore the scope of FERC jurisdiction over Grid West activities, has been substantially reduced from the earlier RTO West proposal. Consequently the level of risk associated with FERC involvement in Pacific Northwest markets has been substantially altered to cover a set of services that represent a relatively small part of consumers' retail bills. This issue though remains a concern for some because of the potential for the Grid West board to take on functions such as new markets that could have a much greater impact on consumers. For this reason BPA remains concerned about the potential for "scope creep" by the Grid West board.

Fourth, a decision to participate in Grid West by BPA does not alter BPA and FERC's fundamental authorities. BPA will include in any agreements with an independent entity carefully drafted provisions that will provide BPA with the ability to withdraw from Grid West for a variety of reasons including the ability to withdraw if a FERC action impinges on BPA's fundamental authorities.

The initial independent board envisioned in the convergence proposal would not be FERC jurisdictional or conduct activities subject to FERC jurisdiction. If the Grid West Basic Operations were implemented after Decision Point 4, several of the Basic Operations functions would be subject to FERC jurisdiction. The July 1, 2005, FERC declaratory order addressed a number of concerns regarding FERC jurisdiction, and FERC's intentions with respect to Order 2000. Because regional stakeholders elect Grid West board members and have other powers under the Grid West bylaws to influence policy, BPA is confident that an independent entity structured along the lines of Grid West would be responsive to regional stakeholders.

The TIG proposal seeks to avoid additional FERC jurisdiction, although FERC jurisdictional entities joining the TIG effort may have to file TIG contracts to implement the proposal and any subsequent changes, and would continue to be subject to Order 888 changes.

BPA believes describing participation in Grid West as an "on" switch for FERC jurisdiction and TIG as an "off" switch for FERC jurisdiction is simply not correct. Rather, we believe the FERC jurisdiction issue should be described as a dimmer switch in which FERC jurisdiction is incrementally increased as Grid West begins to implement functions subject to FERC jurisdiction—after Decision Point 4. We believe this increase in FERC jurisdiction is quite modest relative to the existing situation as revised by the Energy Policy Act.

Another related concern is whether establishing Grid West in and of itself creates the opportunity for substantially more FERC jurisdiction than is currently contemplated in the Grid West proposal because of the ability of Grid West to potentially expand its scope into additional FERC jurisdictional activities. In this respect we agree with TIG proponents that this could be a problem that should be addressed through additional, appropriate limitations on "scope creep" that should be included in the Grid West organizing agreements.

We have attached a summary of the limitations on FERC's ability to dictate Grid West policy as Attachment C.

Liability Considerations

A significant issue which did not generate much comment is how liability would be impacted by formation of TIG or Grid West. The tradeoff with respect to liability is between capturing the benefits of consolidating operations and commercial practices through a single grid operator and potentially increasing liability exposure by doing so. BPA believes that successful implementation of consolidation of control areas under any proposal will improve reliability, thereby reducing the region's risk of a catastrophic outage.

However, additional liability risk could arise because the board of an independent entity or an independent contractor performing certain TIG functions may not benefit from limited liability protections currently provided in state retail tariffs. Through a Grid Management Fee, customers that schedule transactions with such an entity would pay the costs of the entity's additional

liability exposure in the form of an insurance premium (including a deductible), a premium for risk, or other costs to manage liability risk, as well as the costs of any liability beyond the limits of insurance coverage. Transmission owners may themselves face liability for the actions of the entity because of their legal relationship with the entity.

One major concern that will shape BPA's course to ultimately proceed with either Grid West or TIG, or an integration of the two, is adequately mitigating liability risks that may be incurred in passing transmission functions to an independent entity. We believe FERC can provide the necessary mitigation.

Under the TIG proposal, BPA and other transmission owners that join TIG would likely have to provide indemnification protection to TIG contractors. Without these protections, it is not likely an independent contractor would perform these functions. Thus, the TIG proposal gives rise to significant liability issues, which we believe also could be mitigated by FERC.

BPA is encouraged by the Commission's recent acceptance of OATT provisions limiting liability for RTOs, including most recently the Southwest Power Pool RTO. These provisions will limit liability exposure to instances of gross negligence or willful misconduct. This is comparable to the existing liability protection in most investor owned utility state tariffs for in-state transactions, but provides better liability protection for wholesale transactions that cross state boundaries.

BPA will need to ensure that similar protections are provided for Grid West, TIG, or an integration approach, and that liability risk is adequately mitigated before executing a transmission agreement to join an independent entity as a participating transmission owner.

BPA's Decision Process and the Energy Policy Act of 2005

The Energy Policy Act of 2005 has clarified the requirements for BPA to participate in an independent transmission organization. This section of the Act will provide guidance and set limitations on the type of transmission agreement BPA will be able to sign at Decision Point 4, and the final design will have to meet the requirements of the Act for BPA to move forward at that time.

Section 1232 of the Act authorizes the Secretary of Energy or, upon designation by the Secretary, the Administrator to transfer control and use of the BPA transmission system to a Transmission Organization (RTO, ISO, independent transmission provider, or any other transmission organization approved by FERC for operation of transmission facilities). The participation agreement must include performance standards that the Administrator determines necessary and appropriate, including provisions to ensure cost recovery, consistency with existing contracts and third-party financing arrangements, and consistency with BPA's organic statutes. The agreement must also include provisions for monitoring and oversight by BPA of

activities to ensure compliance with BPA's organic statutes, dispute, withdrawal rights, and termination of the transmission agreement.

The Act also provides that existing law continues in effect, and no abrogation of any contract or treaty is authorized. And, it explicitly states that it does not grant FERC any authority over BPA's generation or power sales activities.

Energy Policy Act of 2005 Refund Authority

The Energy Policy Act of 2005 authorizes FERC to order refunds by BPA in a narrowly-defined set of circumstances. Refunds may be ordered if BPA (i) makes a wholesale sale of energy for 31 days or less in an organized market where the rates are set by a FERC-approved tariff and (ii) violates the terms of the tariff or applicable FERC rules that FERC has determined, after public notice and comment, should apply to nonjurisdictional entities.

In addition, the rate at which BPA makes the sale must be unjust and unreasonable and must be higher than the highest just and reasonable rate charged by any other seller for a similar sale in the same geographic market for the same or nearly comparable period of time. BPA sales into the voluntary ancillary services, imbalance energy, reconfiguration,¹² and redispatch markets that would be established for the Grid West consolidated control area would be subject to this new FERC refund authority.

Given that these markets are intended to benefit the consolidating owners by lowering their costs and that each owner must make available sufficient resources to meet its needs outside of the markets, there is no incentive for BPA or any other consolidating owner to manipulate the markets to gain an advantage. Further, Grid West markets are limited to ancillary services, imbalance energy, and redispatch markets, which collectively amount to only a small fraction of the costs of delivering power to consumers.

Conclusion

Over the past ten years, the region has worked hard to try to find a sweet spot for a proposal to restructure transmission so as to capture the benefit of "one-utility" operation of the region's transmission system as though owned and operated by a single utility. Obviously, there is no perfect answer. Rather, it is a process that began ten years ago and will continue for some time to come.

From our perspective we favor a "convergence strategy" that integrates the best of both proposals. BPA has decided to take 30 days to further develop a convergence proposal that takes advantage of a Grid West-type governance structure and robust stakeholder process with some

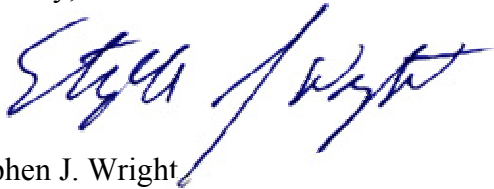
¹² The Grid West proposal includes creating a "Reconfiguration Services" market that allows holders of existing transmission rights to release rights they don't need to serve their load or contract obligations into an auction where the highest bidder would be able to obtain access to the system through the release of these unneeded rights. The resulting auction revenue would go to the entities that released their rights.

modest modifications to increase regional accountability, and implements several near-term functions advocated by TIG. The goal is a better proposal that enjoys broader regional support.

It is impossible to satisfy all interests completely. But the evidence is clear that a robust “one-utility” operation of the region’s transmission system has significant net benefits. We believe the convergence proposal may have the best chance of success in implementing meaningful change that can capture these net benefits while providing substantial regional accountability and the ability to change course as necessary to meet regional needs.

We will work with the region over the next 30 days to develop a final detailed convergence proposal and then decide which approach to take.

Sincerely,

A handwritten signature in blue ink, appearing to read "Stephen J. Wright". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Stephen J. Wright
Administrator & Chief Executive Officer

A Straw Proposal for Convergence
of the TIG and Grid West Concepts

September 23, 2005

A group of 14 regional consumer-owned, public-owned and investor-owned utility representatives with varying levels of support for TIG, Grid West or both gathered to determine if there exists a transmission policy alternative to the competing proposals. If such an alternative exists, we are hopeful it can garner support from more of the region's stakeholders and reduce the divisiveness that currently ensnares the region. To find an alternative we had to sift through the differences in the proposals at the fundamental level. We intentionally avoided the detail.

The Discussions

The biggest concern with Grid West is the potential for scope creep. An independent Board can undertake scope changes beyond the basic features identified by the Transmission Service Liaison Group (TSLG) in the Grid West development effort despite opposition by the stakeholders in the region. Another major concern with Grid West is the potential for a Board without adequate experience with or commitment to regional concerns.

The biggest opposition to TIG stems from its lack of independence. The TSLG basic features can't be effectively implemented without assurance that they will be applied consistently to all market participants. Another major concern is that TIG addresses only a subset of the problems and opportunities identified two years ago by the regional representatives group (RRG).

Once the major concerns were identified, we tried to find areas of agreement. First, everyone agreed that the Pacific Northwest is unique and that regional transmission policy experience will be critical to the success of any entity. Furthermore, everyone agreed that some of the low hanging fruit identified in the TIG proposal has real value to the region and should be harvested regardless of the outcome of this whole process, and the sooner the better. Next, while there was unanimous approval at the RRG two years ago as to the list of problems, the priority to resolve any specific problem is likely different among different stakeholders. The TIG proposal was not designed to address all of the problems identified by the RRG. It was designed to address the issues most important to those that participated in the development of the proposal. Finally, very few of the stakeholders in the region have the resources to participate actively in competing parallel processes attempting to address the same problems.

As we focused on the independence conundrum, we found that TIG supporters acknowledge that oversight by an entity that is independent of market participants would be necessary to effectively implement the TSLG basic features. We found further that Grid West supporters believed it would be unlikely that the Grid West independent Board would make scope changes if the Members Representative Committee (MRC) formally voiced its opposition, especially if there were substantial regional transmission policy experience on the Board.

With a common understanding of the most critical concerns and points of agreement, we developed the following proposal. While containing elements of both, this concept is neither Grid West nor TIG. Although we acknowledge that this proposal will not be acceptable to parties firmly entrenched in their respective philosophical camps, we are hopeful that it will serve as a platform that can be supported by more of the region's stakeholders than currently support exclusively Grid West or TIG.

The Proposal

A non-profit, non-FERC-jurisdictional, member organization (the “Charter” entity to be named later) will implement valuable near term services identified by TIG in its proposal¹³ while simultaneously continuing the activities to ultimately implement the TSLG basic features, including the negotiation of transmission agreements among transmission owners for that purpose. The continuing activities will follow the schedule contemplated in the Grid West proposal with regional review at Decision Points 3 and 4.

Because the Charter entity will be performing services that are contemplated to continue indefinitely, it will need to continue to exist in the event that the region determines at either Decision Point 3 or 4 to cease further work toward implementation of the TSLG basic features. If at Decision Point 4 the regional decision is to go forward with implementation of TSLG basic features, the transmission agreements would be executed and a tariff filed at FERC governing TSLG basic features.

Unlike the Grid West governance proposal, the Charter entity will be independent only within a defined scope limited to its initial purposes and ultimately, implementation and management of the TSLG basic features. The Charter Board will not be permitted to adopt scope changes defined as the special issues without approval of the MRC. Furthermore, members of the Charter Board will be required to have regional transmission policy experience.

While we did acknowledge that the existing bylaws for Grid West were thoroughly vetted in the region and thus are a logical starting place, details on how to implement this proposal was beyond the scope of our discussions and is best left to regional dialogue.

¹³ Transmission planning and expansion modeled on the concept developed by TIG with the Charter Board filling the role of the Transmission Expansion Review Committee (TERC); interim market monitoring building to the extent practicable upon the work done by SSG-WI that will serve its purpose until such time as a west-wide market monitor exists that fulfills the needs of the members; common OASIS; others as determined by the members.

Detailed Summary of Comments

Comments by Grid West Supporters

Independent decision-making is critical

Supporters of the Grid West alternative emphasized that the Grid West proposal is a compromise proposal developed over many months with broad regional stakeholder participation. Many noted that the proposal does not meet all of the concerns of any one group, but in a spirit of a willingness to make things work, they were willing to help make Grid West a success. Many noted that more work needs to be done.

Grid West's independence will allow all parties, users and owners, to submit market sensitive load and generation data with confidence. Grid West's governing board is elected by transmission users and stakeholders. For this reason, many Grid West supporters believe Grid West will be more accountable, accessible, and responsive than transmission owners under the TIG alternative. An independent entity that is obligated to protect confidential information can help resolve concerns that critical information be available to the system operator.

"Local control" for many PNGC Power members and many other utilities served by General Transfer Agreements (GTA) means IOU transmission provider control. Moving decision-making from where it is today is exactly the point of independent governance. Grid West's independence in this area is particularly important to ensuring that one transmission owner is not advantaged over other users. By design the Grid West proposal is the least likely to be influenced by market participants and most likely to represent and protect the public from market abuses.

Grid West would act as a forcing function which creates a potential consequence for inaction and thus motivates all parties to stretch for regional transmission solutions (as opposed to taking the path of least resistance and defaulting to the status quo).

Public power was started when farmers and cities received very low interest government loans to form cooperatives to build their own power systems or to have an arm of city government build a power system to serve their local populations. This was grass-roots action at its finest to improve the lives of many and share the risks and costs and benefits. Now that those small kingdoms have been established, and their supply of cost-based federal power is assured (for the most part) they do not want to take the step of looking at the system as a whole and applying the concepts of everyone having a voice, and sharing the costs, risks, and benefits of the system as a whole.

The Grid West proposal is to band together, as all interest holders, to create a government-like independent non-profit body to gather and analyze information, run a fair market, plan and expand the system, and be the arbiter of policy based on standards set forth in bylaws. This is much closer to the concepts of public power than the TIG proposal of limited special interests retaining the true decision-making authority. Grid West is a public operation of the system and TIG is a private operation of the system. Is this where public power is going?

Advantages of Grid West Proposal

Grid West can sell transmission services on a grid-wide basis both long-term and short-term. This clear authority, coupled with its independent governance, will give users confidence that market power is not exercised by transmission owners. Grid West's planning and expansion process provides a transparent and fully-accessible process for determining if there is a need for transmission expansion (or a non-wires alternative).

Grid West has the authority to ensure that a needed expansion gets built, either by a transmission owner, or by a third party. Grid West's ability to allocate the costs of the expansion to transmission owners who benefit ensures that the costs of expansion will be fairly allocated. The Reconfiguration Service allows new access to transmission by combining existing ATC and secondary sales of transmission rights not needed to serve load. The consolidated control area and its imbalance market will provide effective redispatch service in real time. The economic efficiency of Grid West is greater than the TIG proposal because of voluntary real time ancillary services, imbalance energy and redispatch markets.

National energy legislation provides "native load protections." These protections will apply to the native load of IOUs as well as BPA – even more reason to have an independent entity administering the system as opposed to corporations with one bottom line, and the potential to discriminate in favor of native load and its merchant function.

Grid West offers a single, integrated and comprehensive organization designed for and focused on the effective management of the Northwest electric grid. Design decisions are made on the basis of what works technically and what will bring value to the region as a whole. That requires an independent organization to provide a single locus for decision-making that will promote consistent policies and practices together with a positive corporate culture across a full spectrum of functions. Grid West transmission agreement is a contract with an independent party whose purpose is efficient and equitable operation of the grid. That approach starts with a clear technical vision of intended operation with an independent board to implement the vision.

Backstop decisions by Grid West are more likely to be implemented than those made by individual utilities in response to penalties imposed on them by regulators. Grid West is more likely to be able to use its greater visibility of the consolidated grid within the consolidated control area and its access to a wider range of resources to avoid problems before they occur.

TIG lacks independence

Many supporters of the Grid West alternative criticized the TIG alternative because of the lack of decision-making independent of market participants. Many felt that the TIG proposal leaves market participants in charge—namely transmission owners—a decision process they believed had contributed to the inability of the region to effectively address problems with the status quo. They also criticized the TIG alternative for lacking a robust stakeholder process, and preserving a transmission owner bias instead of embracing a broader regional stakeholder perspective.

Some noted that TIG's desire to avoid FERC jurisdiction would constrain TIG's ability adjust to changing conditions and limit the potential of TIG to deliver benefits to the region. TIG's governance is designed to provide maximum protection to the owners. The economic efficiency of Grid West is greater with the

addition of voluntary real time ancillary services, imbalance energy and redispatch markets over that offered/proposed by TIG. TIG's lack of independence and broad accountability will render ineffective its decision-making ability. We question seriously the viability of an organization that seeks to manage the grid using decision makers who are appointed to represent their own self-interest rather than the region as a whole.

All five TIG functions are ultimately subject to the control of the TIG Executive Committee - a group comprised principally of transmission owners and utility users of transmission. This construct relies on Standards of Conduct to safeguard against inappropriate influence from market participants or other affected parties. It is this very approach which has produced many of the region's current problems. More importantly, this lack of independence will ensure that key regional players (e.g. Independent Power Producers, major transmission owners like Idaho Power and PacifiCorp) simply will not join. The resultant non-participation by essential regional parties will likewise ensure that benefits of the TIG proposal will be limited.

TIG developers at the August 10, 2005 TIG meeting expressed their concern at sharing sensitive utility data with "power marketers" who are their competitors. Visibility of information is critical to all aspects of an integrated system, and for interested parties, even those who are members but are not creating the data, such as regulators. TIG can not operate without the support of independent power producers.

Likelihood of Implementation Success

Many held little or no hope that the TIG alternative could be implemented effectively given the difficulty of negotiating five different complex coordination agreements and the need to reach consensus on each of those agreements among transmission owners that historically have not been able to agree. TIG's voluntary approach is unlikely to succeed principally because voluntary organizations cannot allocate costs. Negotiating transmission agreements is difficult and time-consuming. TIG is proposing several multilateral contracts between competitors. Owners of transmission have said they need an independent party to finish transmission agreement negotiation. TIG compounds the difficulty by attempting to design systems that affect competition and prices while avoiding federal regulation. If transmission issues could have been solved by just cooperating together to get it done, it we would have been done by now.

The difficulty in making modifications to policy by amending these contracts is thought to be a significant barrier to the ability to change policy in response to changing conditions. The TIG governance structure leaves ultimate decision-making in the hands of the current transmission owners and sets up advisory committees of stakeholders. There is little reason to believe stakeholders' limited ability to influence transmission policy would improve under the TIG proposal.

One public power utility noted it "will not vote for a wink and a nod and a bunch of new contracts (that not everyone will be entitled to see) knowing that TIG is proposing that decision-making largely remain with transmission owners that are also load-serving utilities (but still the reliability function would somehow be independent) and that there be voluntary consolidation of some control areas with a loose ancillary services market."

A cobbled together web of contracts which leaves reliability oversight to individual transmission owners seems likely to lead to lots of litigation and endless trips to FERC, the very thing that TIG claims not to

want. Enforcement of regional transmission decisions can happen only through a responsible governance structure; it cannot be done through a web of contracts signed by some parties and not others.

Is it really possible to get the plethora of contracts that the TIG proposal contemplates signed by even the TIG members? How can the proponents of the contractual TIG approach can profess the workability of a multilateral contract approach when they themselves have been unwilling to sign important contracts governing the transmission system's most fundamental operational function—reliability.

Even TIG proponents will not likely sign key multilateral agreements governing the reliable operations of the transmission grid. Over 92 percent of the control area load in the Western Interconnection signed WECC's Reliability Management System (RMS) contracts, agreeing to comply voluntarily with WECC reliability criteria. However, even after the severe blackout in the East, most of the control areas that are key promoters of the TIG contractual approach and members of the TIG steering committee failed to sign RMS agreements, BPA and Puget being the only exceptions. (All of the other filers and even several independent power producers signed these agreements.)

TIG proposal is weak

TIG provides no real tools to manage transmission problems because of the limits imposed by avoiding FERC jurisdiction. It is just as unclear in TIG as it is in Grid West, how Network Integration (NT) customers would preserve their existing NT contracts and take new system-wide service without experiencing a pancake for new service. TIG has said it would have a "common" ATC methodology but each transmission provider would continue to make its own determination of ATC on its system. This would result in less grid-wide ATC being made available than under the Grid West model.

TIG does not address transactional pancaking in a meaningful way. TIG's does not offer an effective one-system operation. TIG's planning and backstop capability is lacking; TIG can only recommend additions to the system, much like the status quo. The TIG "incremental" changes mostly address only symptoms of the region's problems rather than the problems themselves (wholesale market inefficiency).

The TIG proposal will not fulfill the "one-utility" vision because it includes no central authority, accountability or control; it allows commercial bias into system operation. TIG's design decisions appear to subordinate functionality in an effort to avoid FERC jurisdiction rather than seek what is in the best interest of the regional grid and its stakeholders.

TIG offers only a slight improvement over today's existing bilateral sales by providing better information in bulletin boards. Because it is unlikely that two entities want the identical rights, few if any bi-lateral trades will be made. This would lead to a less efficient outcome than the reconfiguration auction Grid West proposes. Bilateral trades rarely work for remote renewable resources. TIG's approach would result in higher prices for renewable resources than the Grid West proposal because intermittent resources will not be able to sell their transmission rights when they are not needed. TIG proponents indicate that TIG will move toward a reconfiguration type system, but we are not convinced that this is possible while still requiring bilateral settlements.

In the TIG proposal, RABA is a control area operator only, and only has access to the consolidators' resources. RABA is limited in its scope, which constrains its ability to improve reliability beyond a certain point. The TIG proposal fails to include public purpose interests in its governance structures;

excludes from decision-making processes virtually all Independent power producers, despite the fact that they account for 18 percent of the region's capacity; and fails to integrate British Columbia resources or those of the Intermountain West.

The TIG backstop authority is left to state regulators and FERC, where it is today. Neither state regulators nor FERC have used this authority in the past to solve reliability problems. Further, their limited knowledge on the specific details of the Northwest transmission grid makes their decision process challenging, and in practice may limit their authority to impose penalties.

Costs/Benefits and Rates Risks

We support Grid West because it is superior to the TIG alternative in three important ways: it comes closer to meeting the "one-utility" vision for operating and planning the region's transmission system, it will provide greater benefits, and it is more viable. Actual contract negotiation takes place between the utilities and an independent and objective party whose goal is to serve the best interest of the region.

BPA and other utilities in the Northwest are going to have to make significant improvements in their operating systems in order to comply with federal reliability standards enacted in the Energy Policy Act of 2005. Many of these systems are the very same operating systems that Grid West will need to operate and manage the transmission system for the Northwest. It only makes sense to develop these systems for the entire Grid West footprint and take advantage of economies of scale and a single operating system, rather than each utility developing its own separate systems.

We expect that analysis will show lower benefits (and net benefits) for TIG than for Grid West because TIG doesn't go as far toward the "one-utility" standard for operation and planning of the transmission system:

- TIG would not have a day-ahead system view and would not be able to mitigate potential problems using the most economic resources.
- Rate pancaking would still exist under the TIG proposal.
- TIG's reliance on bulletin boards means that it would be giving up a large part of the efficiency gains made possible through markets.
- TIG's backstop authority for ensuring that needed transmission is built is not effective.
- TIG has offered no viable design for day-ahead scheduling.

TIG proposes a common OASIS to help identify bi-lateral trades, but it will not enable a trade of a right from A to B for rights from C to D or E to F, for example.

TIG has proposed to unpancake rates; but TIG has made no specific proposal about how to deal with this revenue under-recovery. Leaving decision-making in the hands of the current transmission owners means that any rate methodology to unpancake rates could be changed at any time. TIG users have little, if any, control over costs.

TIG stakeholder process is defective

TIG parties who are not signatories to the various elements will not have input into the contractual agreements and therefore will have limited input in to the definition of each element.

The lack of formal roles for regional stakeholders representing renewable resources as well as independent renewable developers is troublesome.

The TIG proposal does not mention tribes. When asked about tribal participation, representatives stated that they would consider the issue for further development. Regulators, tribes, independent power producers, power marketers, renewable interests, environmental interests, and other energy companies can be “stakeholders” in the TIG process. Tribes are not “stakeholders” but have federal treaty rights and sovereign government responsibilities.

FERC Jurisdiction

Concerns about the FERC’s ability to exercise expanded jurisdiction over non-jurisdictional utilities have been greatly ameliorated by the July 1, 2005 Declaratory Order issued by FERC.

BPA and other parties will have a difficult time getting FERC to approve signing the TIG agreements; even if FERC does approve them, that FERC will take a much more active role in regulating the Northwest’s electrical grid because of the lack of independent decision-making. This could be the ultimate irony of the TIG proposal, that in an effort to try and avoid FERC jurisdiction, it will likely increase FERC oversight of the region’s transmission grid.

The TIG proposal contains no provisions to integrate independent power producers (Independent power producers) into the system, except by granting membership in the Northwest Reserves Pool; it does not increase generation options for siting-constrained coastal states by expanding transmission access to resources in the Intermountain states; it does not increase wholesale market transparency by creating multilateral market functions to complement the predominantly bilateral wholesale power market of the region.

Comments by TIG Supporters

Advantages of TIG

Many supporters of the TIG alternative would not support Grid West. They criticized the Grid West proposal on a broad array of issues. Supporters of the TIG alternative emphasized that the TIG proposal begins modestly to make incremental changes in the six critical areas identified by BPA (planning and expansion, reliability, ATC, congestion management, market monitoring and “one-stop” shopping). They emphasized the history of the Northwest’s willingness to work together to develop cooperative agreements to manage a common resource—namely the Northwest hydro-thermal system—lends itself to success in doing so for transmission. More importantly, the TIG alternative avoids expanding FERC’s jurisdiction over Northwest transmission policies.

By starting small and proceeding quickly and incrementally under existing regulatory relationships TIG provides a degree of regulatory and counter-party security that is essential for near-term transmission system expansion.

They noted that the TIG approach preserves access, availability, and price of current transmission service. Supporters of the TIG alternative noted that the TIG alternative preserves existing practices including obtaining transmission service from BPA. Several noted the need to foster stable transmission prices at a

critical time when BPA is trying to shift responsibility to develop new resources to serve Northwest load growth to its customers.

Under TIG BPA will be the operator of the transmission system, will retain its tariff and the ability to make the decisions it does today will continue to set its own rates for new and existing transmission service, and will continue to enter into transmission service contracts. BPA will have a greater ability to control investment in the FCRTS, to control its costs, and to ensure reliable and affordable transmission service for its customers. At a time when BPA is under intense pressure to control its costs and to respond to statutory obligations and court orders, the ability of BPA to chart its own course is important.

Grid West Independence and Accountability are Issues

TIG supporters are concerned that the checks and balances in the Grid West bylaws will not prevent an erosion of accountability from regional interests to FERC. Several noted that doing so would abandon a “public interest” standard that has guided Northwest transmission policy for many years. “Where does a ratepayer go when things go wrong?” In the case of Grid West, a citizen would have to navigate a path of influence so thin and fragmented as to be vaporous.

They believe that Grid West turns over control to an independent entity that has no obligation to follow or even consider the needs of the region in its decisions. For example, despite the strong objections of stakeholders in New England, the ISO-NE Board voted last year to establish a Local Installed Capacity market. The TIG proposal will minimize institution building, and will have direct accountability to existing regional regulatory bodies and end-use customers. These characteristics of the TIG proposal will provide counterweights to the natural inclination of all organizations to grow and spend more money.

However, Modify the composition of the TERC committee to reflect increased independence and to include end-users, Independent power producers and public interest groups as voting members. Allocate the decision-making authority to those who bear the risk of the success or failure of the decision.

Several issues remain that are too important for the region to leave to the members of the Developmental Board including:

- none of the work to date is binding on the Developmental Board, which is free to proceed with different ideas and in different directions (within the confines of the Developmental Bylaws);
- the possibility that Grid West service will encourage those with high-cost transmission contracts to convert to Grid West service as soon as possible, with the resulting claims on “unrecovered revenues” due to Grid West driving up the transmission rates of other, low-cost Participating Transmission Owners in Grid West;
- special accommodations for Canadian participation;
- (i.e., how granular must schedules be);
- pricing of new services offered by Grid West.

Many load serving entities that do not have profit motives support the TIG approach, while supporters of the Grid West approach are entities that have solely a profit motive or a load serving/profit motive. A profit motive is inconsistent with the best interest of ratepayers and is not good public policy.

Grid West asserts with apparent satisfaction that it is “not an RTO.” In the most critical respects, however Grid West is exactly like an RTO: it is a separate, regional, FERC-jurisdictional utility that takes on functions heretofore performed by local utilities or federal Power Marketing Authorities.

FERC Jurisdiction

In general, TIG supporters particularly do not want to create a new, FERC jurisdictional independent entity, which they believe would be accountable to FERC, not the region.

Based on its reasoning in its City of Vernon decision, FERC will apply the same level of scrutiny to the revenue requirement as it would to a fully jurisdictional utility under section 205 of the Federal Power Act. (This same dynamic will apply to any public-power transmission provider seeking recovery from these Grid West revenues.)

Several TIG supporters said they took little or no comfort in FERC’s recent ruling because the ruling is not binding on future Commissions. Some TIG supporters argued for a delay in moving forward to assess the impact of the new Energy Policy Act because several provisions could affect Northwest transmission policy, including the so-called “FERC lite” and reliability provisions, which for the first time grant FERC jurisdiction over BPA and publicly-owned utilities systems for reliability. By creating a new FERC-jurisdictional organization similar to other RTOs, legal protections under the current system are reduced, thereby exposing the region to unforeseen risks.

Under the 2005 Energy Policy Act, BPA will be subject to FERC-ordered refunds to the extent it voluntarily makes short-term sales of electric energy through an organized market in which rates for the sale are established by a Commission-approved tariff (rather than by contract), such as those contemplated in the Grid West proposal, thereby losing its recently won Ninth Circuit protection from FERC-ordered refunds. Several noted that BPA should explain how it intends to comply with the sub delegation requirements of the Energy Policy Act.

Criticism of GW proposal

Several TIG supporters believe changes to the operational structure of the transmission system will detract from efforts to operate reliably and further delay making improvements to infrastructure. The reliance on competition, market mechanisms and selling to the highest bidder are contrary to the interests of load-serving, cost minimizing preference customers and their end-use customers.

A “must offer” requirement for federal power raises questions about control of federal power, and because the federal hydro system is involved, non-power requirements of the system must be maintained. BPA’s transmission customers will no longer be able to purchase new transmission rights from BPA; they will have to do business with Grid West. Grid West proposes to sell injection and withdrawal rights--physical rights analogous to a point-to-point right--in an auction operated by Grid West.

Utilities seeking transmission to move economy or other short-term energy to their loads will have to compete for transmission rights on a price-basis with marketers and generators. To the extent that competitors are purchasing transmission rights to move power to higher-priced regions (such as California or the desert Southwest) the competitors will be able to bid more for the transmission.

This means that in many cases utilities will incur substantially higher transmission prices than are paid now for short-term transmission—or, they may be priced out of the market altogether. It is not in the public interest for load-serving utilities to be put in a position of having to bid for the transmission they need to serve their native loads.

Grid West has not developed a method of pricing long-term transmission (of any stripe) without causing significant cost shifts. Without a clear explanation of how license plate rates may be constructed and implemented without causing under recoveries and cost shifts, it would be irresponsible for BPA to vote to seat the Grid West board of trustees and execute an irrevocable funding agreement.

All contractual payments to the transmission providers will continue to be made and the rate “pancaking” will continue for those contracts. We must assume that Grid West rates will reflect a premium for risk. If BPA needs to recover a portion of its transmission revenue requirement through Grid West’s allocation of revenues from sales of new rights or through Grid West’s scheduling charge, then BPA’s unrecovered transmission revenue requirement becomes a basis for the Grid West rate. In that case, FERC will assert the ability to review the justness and reasonableness of BPA’s unrecovered transmission revenue requirement. BPA’s legacy contract customers, either directly or indirectly (as BPA incurs the charge on their behalf) will have to pay that scheduling charge. Thus, rates will rise, due either to risk or to an actual under-recovery of costs.

Major changes envisioned by the Grid West proposal will occur at the very time that BPA will also be seeking to implement a major change in its power supply role by shifting responsibility for new resource acquisition to its power customers. This shift in responsibility will make these customers even more dependent on the FCRTS to move power from non-federal resources to their loads. Grid West proposal introduces uncertainty regarding the availability and cost of long-term transmission needed to develop new resources at precisely the wrong time. The TIG proposal does not create new uncertainties that will stymie BPA’s effort to shift of resource responsibility from BPA to the preference customers.

Prior efforts to establish a new regional transmission entity foundered on two specific issues – pricing long-term transmission, and elimination of rate pancakes. The failure to address them now in the Grid West proposal raises concerns that difficult, and perhaps deal-breaking issues, are being purposefully ignored until an after independent board is established so that these issues can be resolved without the necessity of reaching a regional consensus on the solutions.

The Northwest has been able to build more transmission than any other part of the country without an RTO. The TIG proposal formalizes commitments by utilities to participate in a regional transmission plan that include all alternatives, not just transmission solutions. The PNCA agreement produced substantial improvements in the operation of the regional generation system without creating a substantial new bureaucracy. Until it is up and running, tested and trusted by utilities, regulators, and the financial community, Grid West it is not a credible institution for transmission system expansion or management.

Costs and Benefits Risks Rates

Many also noted that the TIG alternative is less costly than the Grid West alternative. A number noted that the TIG alternative is less risky, less complicated, and can be implemented more quickly than the Grid West alternative.

TIG supporters are concerned that the costs of Grid West are too high, that the benefits are overstated, that cost escalation is likely to be higher than expected, that the Grid West proposal is new and untested, that the Grid West proposal creates new markets for transmission and energy that could be manipulated by companies with no interest in serving consumers like Enron, that the Grid West proposal could result in a loss of revenue and a cost shift among customer class from reducing pancaked rates, and that the Grid West proposal implements too much change too quickly. Some said both proposals underestimate the costs and overestimate the benefits of consolidating control areas. BPA has ignored various Grid West risks identified by Schweitzer Engineering Laboratories in study commissioned by BPA. In the first few years of operation, it is unrealistic to expect a smooth transition to Grid West.

Under the Energy Policy Act all transmission providers and transmission users will have to comply with new reliability standards with or without TIG or Grid West. We should be careful not to ascribe to either Grid West or TIG benefits from increased reliability that may be simply part of future federal requirements. The TIG proposal will also involve cost increases; the fundamental difference is the size of that increase, which is driven by the way in which the changes are implemented.

Some noted that the analysis of the benefits of Grid West is flawed because: (A) review of existing studies related to the benefits of Grid West on a piecemeal basis without taking the full context of the study into consideration could lead to some benefits being considered without the impact of related costs or risks; (B) in calculating redispatch benefits the modeling sample was so small (8 hours) that the effort to extrapolate it to an annual basis (8760 hours) makes the result suspect; (C) estimated benefits associated with increased reliability are unsustainable on a probabilistic basis because large cascading outages happen on such an infrequent basis that there is no statistical basis to determine what a change in operating protocol will have on the probability of a cascading outage not occurring; (D) reduced rate pancaking will result in cost shifts rather than actual cost savings; (E) the cost analysis neglected to calculate the added costs that could occur if FERC rates of return were adopted under Grid West rather than the current rates methodology; and (F) the Henwood Study indicated that the costs of Grid West would exceed benefits by \$122 million per year.

Third, currently, PBL receives \$60 to \$80 million in transfer payments from TBL in exchange for providing TBL power to use in interconnected operations services (IOS). It is unclear whether PBL will continue to receive this transfer payment if Grid West is established – if it does not, that could be a \$60 to \$80 million loss to BPA, and BPA will raise its power rates to recover that amount.

CCA

Consolidated control areas theoretically provide a better view of overall system conditions, but that doesn't necessarily result in better reliability as the 2003 Eastern Outage shows. We have heard BPA express its view that the operators of the CCA will have a better "feel" for the system and thus better able to respond to the emergency. All the proposals fall short in that all existing control centers will not be a part of the CCA. An outlying control area that is not responding to the emergency, until the PNSC acts, will surely limit the reliability improvement.

Consolidation of control areas is not voluntary for utilities that are not control area operators and are located inside the consolidating control areas. Cost/benefit of a Grid West operation is questionable. TIG would proceed with caution in this area and work under regional control so all stakeholders would have a chance to review each step and approve financial investments before consolidation takes place.

We do not agree with many of the Grid West risk/rewards analysis assumptions (improved tree trimming and crew dispatch benefits for example do not pass the laugh test, and certainly can be achieved without a new Grid West entity). We believe that there is double counting of benefits.

Similarly, the proposals do not give direct control of resources to the CCA operator on a daily basis and it is highly unlikely that any entity will give up this direct control.

We suggest a different approach be taken:

- Enhance the PNSC, or
- Structure a reliability agreement among all control areas in a CCA like model solely for the purpose of emergency management with perhaps a voluntary ancillary services component.

Contract Lock is not adequate

Not all aspects of service are provided for in the contract lock document, putting native load service at risk of being preempted for the benefit of power marketers. Also, at the end of the contract term BPA customers will face transitioning its transmission service to Grid West. Under the contract lock proposal the BPA reserves the right to make the final decision as to whether all the locked terms have been preserved after Grid West is implemented. All of this is troubling for BPA's preference customers that use BPA transmission to provide reliable and cost effective service to their customers. A "contract" in which BPA is the ultimate arbiter of what the contract means, and which moreover is operating in an environment (Grid West) over which FERC has dominant control, is not a "contract" in the normal sense of the word. PPC's long-standing "must have" of an adequate and effective contract lock is unmet. These concerns are avoided if Bonneville rejects the Grid West proposal.

Comments by Others Who Supported "Convergence"

A number of comments suggested that a viable strategy would be to "converge" the two proposals. However, several others commented that the differences in philosophy between the two proposals are too fundamental to allow for convergence. In generally, it could be said that the supporters of Grid West fear that the TIG proposal won't effect real change, while the supporters of TIG fear that the Grid West proposal will.

Aspects of both TIG and Grid West hold promise to deliver a more efficient and better integrated network. Although both Grid West and TIG proposals have merit, we doubt either, taken alone, is sustainable or sufficient. While there is consensus on much of what should be done, there is no consensus for either the TIG or Grid West proposal – taken alone. We doubt whether, taken alone, either TIG or Grid West would be practically, or politically, successful.

In addition, significant uncertainty has been introduced by the new federal Energy Act recently signed by the President. We note above that the implications of the new federal Act for regulation of reliability in the Western Interconnection are not yet clear. Given that uncertainty and the need to make near-term progress, we think an incremental approach to reliability enhancements makes sense. Consequently, we urge BPA to focus on flexibility and not make an irrevocable up-or-down decision between the two proposals. A flexible approach that draws on the strengths of both proposals will best serve the region. The challenge for BPA and the region is to make timely progress using the most practical and sustainable aspects of both approaches.

Multi-party coordination contracts may be the most practical and prudent path to near-term improvements. BPA should set an aggressive time-table to test this approach. Narrowly focus any further development of Grid West on those necessary and beneficial functions that cannot be accomplished by coordination contracts or that will enhance the effectiveness of such contracts. BPA should lead the region by committing to near-term improvements in region wide transmission planning and expansion, reliability management, a common platform for transmission access and scheduling (i.e., common OASIS), and market monitoring.

We see no reason to wait for a new Grid West entity to accomplish beneficial planning and no reason to conclude that such planning can be accomplished only by creation of a new institution. Given the region's need for new generating resources in the next decade and enhancements to the grid in order to integrate those resources, we urge BPA to lead implementation of transmission planning as quickly as possible. TIG offers the quickest and clearest first steps toward this goal.

We urge BPA to lead implementation of reliability enhancements as quickly as possible. In the near-term the multi-party contract approach proposed by TIG is the most promising, but only if a critical mass of control areas (I-5 corridor, for example) agree quickly to a centralized reliability authority. If that fails to materialize, particularly among critical control areas, establishment of an independent entity under Grid West may be necessary.

we submit that a hybrid approach that draws from both is the most prudent path for the region to achieve progress in the near-term. The benefits include: Focusing the region on near-term action; Generating potentially broader support than either proposal standing alone, and; Implementing incrementally to reflect the uncertain effects of the new federal Act and remaining uncertainty regarding costs and benefits.

We recommend that a "convergence transmission organization (CTO)" continue to be developed that has integrity with accountability since it appears that neither Grid West nor TIG enjoys broad enough support to be successful. With this in mind, we recommend that the best features of each proposal be combined with transparency to establish the critically important oversight and implementation responsibilities of a CTO.

Whichever choice you make, it must be with the goal of providing the benefits of such a decision to the entire region. To that end, it is imperative that the geographic scope of Grid West or TIG be region-wide. To be more specific, if Idaho Power, Pac-East, Avista and Northwestern are not ALL included in whatever organization is finally created, we will view the end result as unacceptable. [If these entities are not included, we are left with nothing more than the status quo.]

Summary of Limitations on FERC's Ability to Dictate Grid West Policy

1. FERC has no authority to require amendments to BPA's transmission agreements. FERC Declaratory Order, July 1 2005. This is consistent with other FERC orders in the MISO and CAISO contexts. Under EPA'05, FERC now has some authority to require changes to BPA's transmission tariffs in order to assure that BPA's transmission services are offered to third parties under the same rates, terms and conditions as BPA applies to itself.
2. BPA does not need FERC approval to withdraw from Grid West. FERC Declaratory Order, July 1, 2005.
3. FERC does not gain authority over non-jurisdictional entities as a result of their becoming participating transmission owners, purchasing transmission services from Grid West or becoming members of Grid West. FERC Declaratory Order, July 1, 2005.
4. FERC cannot assert jurisdictional authority over non-jurisdictional entities where Congress has not specifically provided that authority. Non-jurisdictional entities cannot voluntarily grant FERC any jurisdictional authority, such as through participation in FERC-regulated markets, where FERC has not been delegated that authority by Congress. *BPA v. FERC*, No. 02-70262 (9th Cir.) (Sept. 6, 2005).
5. If Grid West were to be filed and approved under Order 888 (the open access regime under which we currently operate) instead of Order 2000, BPA and other transmission owners can continue to be the transmission service providers for their pre-existing transmission contracts under their own tariffs while Grid West provides transmission service under new contracts. FERC Declaratory Order, July 1, 2005.
6. If Grid West were to be filed and approved under Order 888, FERC has determined that it would be "inappropriate" to later require Grid West to adopt Order 2000 requirements. FERC Declaratory Order, July 1, 2005.
7. FERC has no authority to require Grid West to make changes to the Grid West – BPA agreement that would affect BPA's statutory requirements. FERC Declaratory Order, July 1, 2005.
8. It is also BPA's view that FERC would have no authority to require BPA to accept any other changes to the Grid West – BPA agreement that FERC might order Grid West to make.
9. FERC cannot change Grid West's board. *California Independent System Operator v. FERC*, 372 F.3d 395 (9th Cir. 2004). Thus, the regions' stakeholders retain the exclusive power to hire and fire Grid West's board. It is BPA's view that the strongest check on Grid West policy is the ability of regional stakeholders to remove the Grid West board.